

McGladrey & Pullen

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Mayor and Aldermen
City of Manchester, New Hampshire

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire ("the City") as of and for the year ended June 30, 2006 which collectively comprises the City's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the Manchester School District or the Manchester Transit Authority, component units of the City, which financial statements reflect 100% of the revenues and 96.2% of the assets of the discretely presented component units. We also did not audit the City of Manchester Employees' Contributory Retirement System, a pension trust fund and a blended component unit of the City, which represents 86% of the assets and 93% of the additions of the pension trust funds. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the basic financial statements, insofar as it relates to amounts included for the Manchester School District, the Manchester Transit Authority and the City of Manchester Employees' Contributory Retirement System, component units of the City, is based solely on the reports of other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in "Government Auditing Standards" issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit, and the reports of other auditors, provide a reasonable basis for our opinions.

As described in Note 10 to the basic financial statements, the City accounted for the receipt of title to the Manchester Civic Center as a non-exchange transaction. We were not able to obtain sufficient evidence to satisfy ourselves as to the propriety of this accounting treatment of the carrying value of net assets.

In our opinion, except for the effect, if any, of the reporting of the receipt of title to the Manchester Civic Center as a non-exchange transaction of governmental activities, as described in the preceding paragraph, based on our audit and the reports of other auditors the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Manchester, New Hampshire, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows, thereof, and the budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 11 through 22 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with "Government Auditing Standards," we have also issued our report dated October 27, 2006 on our consideration of the City of Manchester, New Hampshire's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with "Government Auditing Standards" and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, budgetary detail, combining and individual nonmajor fund statements, capital asset schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary detail, combining and individual nonmajor fund statements and capital assets schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them. The prior year comparative information has been derived from the City's 2005 financial statements and, in our report dated October 28, 2005, we expressed unqualified opinions on the respective financial statements of governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

McGladrey & Pullen, LLP

New Haven, Connecticut
October 27, 2006

City of Manchester, New Hampshire Management's Discussion and Analysis June 30, 2006

As management of the City of Manchester, New Hampshire (the City) we offer readers of the financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented herein along with additional information we have furnished in our letter of transmittal, as well as the City's basic financial statements that follow this section.

Financial Highlights

- ◆ On a government-wide basis of the primary government, the assets of the City exceeded its liabilities resulting in total net assets at the close of the fiscal year of \$465.2 million. Total net assets for Governmental Activities at fiscal year-end were \$113.1 million and total net assets for Business-Type Activities were \$352.1 million.
- ◆ On a government-wide basis, during the fiscal year, the City's net assets increased by \$32.1 million or 7.4%, from \$433.1 million to \$465.2 million. Net assets increased by \$19.6 million for Governmental Activities and net assets increased by \$12.5 million for Business-Type Activities. Government-wide expenses were \$212.5 million, while revenues were \$244.7 million.
- ◆ At the close of the fiscal year, the City's governmental funds reported, on a current financial resource basis, combined ending fund balances of \$43.7 million, a decrease of \$23.8 million from the prior fiscal year. Of the total funds, \$14.8 million is available for spending at the government's discretion, which represents the combined unreserved fund balance in the general fund, special revenue funds and permanent funds.
- ◆ At the end of the current fiscal year, the total fund balance for the General Fund was \$25.3 million, an increase of \$1.3 million from the prior fiscal year. Included in the fiscal year 2006 budget was an appropriation of \$.75 million of unreserved and undesignated fund balance. As of June 30, 2006, \$.8 million of the total general fund fund balance represents unreserved general fund balance. Unreserved and undesignated general fund fund balance at year-end represents .6% of total general fund expenditures and transfers (\$120.9 million).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The basic financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information as well as the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. All of the resources the City has at its disposal are shown, including major assets such as buildings and infrastructure. A thorough accounting of the cost of government is rendered because the statements present all costs, not just how much was collected and disbursed. They provide both long-term and short-term information about the City's overall financial status.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference reported as net assets (deficits). Over time, increases or decreases in net assets (deficits) may serve as an indicator of whether the financial position of the City is improving or deteriorating. It speaks to the question of whether or not, the City, as a whole is better or worse off as a result of this year's activities. Other non-financial factors such as changes in the City's property tax base and the condition of the City's infrastructure will need to be considered to assess the overall health of the City.

The statement of activities presents information showing how the government's net assets (deficits) changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flow in some future fiscal period, uncollected taxes and earned but unused vacation leave are examples.

Both of the government-wide financial statements distinguish functions of the City that are supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities).

- ◆ Governmental activities of the City encompass most of the City's basic services and include governmental and community services, administration, public safety, health and sanitation, highways and streets, welfare, and education and library as well as cemetery, and parks and recreation. Property taxes, charges for services and state and federal grants finance most of these activities.
- ◆ Business-type activities of the City consist of the Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program. They are reported here, as the City charges a user fee to customers to help cover all or most of the cost of operations.
- ◆ The government-wide financial statements include not only the City itself, but also three legally separate component units, the Manchester School District (MSD), the Manchester Transit Authority (MTA) and the Manchester Development Corporation (MDC).

The government-wide financial statements (statement of net assets and statement of activities) can be found on pages 24-27 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control and accountability over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The City has three fund types:

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains eight individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Capital Projects which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation as Other Governmental Funds. Non-major governmental funds for the City include the United States Department of Housing and Urban Development (DHUD) Section 108 Fund, Cash Special Projects Fund, Community Development Block Grant Fund, Other Grants Fund, Civic Center Fund, and the Revolving Loan Fund. Permanent Funds consist of the Cemetery Fund and the Library Fund. Individual fund data for each of these non-major governmental funds is provided in the combining balance sheets on pages 88-89 and in the combining statement of revenues, expenditures and changes in fund balance on pages 90-91.

The City adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the authorized budget. The statement of revenues, expenditures and changes in fund balance on a budgetary basis can be found on page 31.

The basic governmental fund financial statements (balance sheet and statement of revenues, expenditures and changes in fund balance) can be found on pages 28-29 of this report.

Proprietary funds. The City maintains five proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water Works, Environmental Protection Division, Aviation, Recreation and the Aggregation Program Funds. The proprietary fund financial statements provide separate information for the Water Works, Environmental Protection Division and Aviation, which are considered to be major funds of the City. Conversely, both of the remaining funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the Recreation Fund and the Aggregation Program is provided on pages 93-95 in the form of combining statements elsewhere in this report.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements can be found on pages 32-34 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to provide services to the City's constituency. The City has two pension trust funds and one agency fund. The accounting used for fiduciary funds is much like that used for proprietary funds. The basic fiduciary fund financial statements can be found on pages 35-36 and 67-68 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 37-75 of this report.

The notes to this report also contain certain information concerning the City's progress in funding its obligation to provide pension benefits to its employees.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position and an important determinant of its ability to finance services in the future. On a government-wide basis, the City's assets exceeded its liabilities by \$465.3 and \$433.1 million at June 30, 2006 and 2005, respectively.

City of Manchester, New Hampshire
Net Assets (\$000's)
Primary Government

	June 30, 2006			June 30, 2005		
	Govern- mental Activities	Business Type Activities	Total	Govern- mental Activities	Business Type Activities	Total
Current and Other Assets	\$152,343	\$116,451	\$ 268,794	\$169,553	\$102,391	\$ 271,944
Non-Current	20,313	4,037	24,350	20,794	4,447	25,241
Capital Assets	331,705	596,182	927,887	303,702	586,618	890,320
Total Assets	504,361	716,670	1,221,031	494,049	693,456	1,187,505
Current Liabilities	110,465	24,990	135,455	103,387	23,439	126,826
Long-term liabilities outstanding	280,759	339,555	620,314	297,141	330,421	627,562
Total Liabilities	391,224	364,545	755,769	400,528	353,860	754,388
Net Assets:						
Invested in Capital						
Assets, net of related debt	139,340	290,468	429,808	114,061	278,807	392,868
Restricted	20,257	46,926	67,183	21,994	42,328	64,322
Unrestricted	(46,460)	14,731	(31,729)	(42,534)	18,461	(24,073)
Total Net Assets	\$113,137	\$352,125	\$ 465,262	\$ 93,521	\$339,596	\$ 433,117

At the end of the current fiscal year, the City is able to report a positive balance in both its governmental and proprietary activities.

A portion of the City's net assets totalling \$429.8 million reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), net any outstanding debt related to these assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The portion of the City's net assets that are restricted, \$67.2 million, represents resources that are subject to external restrictions on how they may be used. Governmental unrestricted net assets (deficit) of (\$46.5) million may not be used to meet the government's ongoing obligations to citizens and creditors, due to the negative balance. The primary reasons for the negative balance are due to the Old System Pension Obligation Bond with an outstanding balance of \$15.3 million, which was issued to properly fund the unfunded amount, the Landfill Closure Project, which has an outstanding balance of \$12.9 million, other landfill closure and post-closure care costs estimated liability with an outstanding balance of \$3.8 million, Urban Renewal Related Projects with outstanding balances of \$1.9 million, Revaluation debt with an outstanding balance of \$1.0 million, long-term debt related to insurance claims with an estimated outstanding balance of \$3.4 million, as well as long-term debt related to compensated absences with an estimated outstanding balance of \$10.5 million at June 30, 2006. The increase in invested capital assets net of related debt is due to major building additions and renovations.

City of Manchester, New Hampshire
Changes in Net Assets (\$ 000's)
Primary government

	June 30, 2006			June 30, 2005		
	Govern- mental Activities	Business Type Activities	Total	Govern- mental Activities	Business Type Activities	Total
Revenues:						
Program Revenues:						
Charges for services	\$ 21,760	\$ 81,516	\$103,276	\$ 25,587	\$ 78,753	\$104,340
Operating grants and contributions	27,451	4,589	32,040	20,757	5,607	26,364
Capital grants and contributions		8,603	8,603		17,948	17,948
General Revenues:						
Property taxes/auto/franchise fees	84,289		84,289	81,062		81,062
Unrestricted investment earnings	3,720	4,441	8,161	2,890	2,456	5,346
Transfers and other	7,352	941	8,293	5,818	(3,007)	2,811
Total revenues	144,572	100,090	244,662	136,114	101,757	237,871
Expenses:						
General government	27,046		27,046	39,257		39,257
Public safety	49,411		49,411	44,575		44,575
Health and sanitation	4,650		4,650	5,044		5,044
Highways and streets	28,344		28,344	21,018		21,018
Welfare	1,430		1,430	1,345		1,345
Education and library	4,456		4,456	3,467		3,467
Parks and recreation	5,155		5,155	5,190		5,190
Cemetery Trust	27		27	26		26
Investment management fee	37		37	31		31
Interest expense	4,400	13,410	17,810	5,359	16,106	21,465
Operations		74,151	74,151		70,634	70,634
Total Expenses	124,956	87,561	212,517	125,312	86,740	212,052
Change in net assets	19,616	12,529	32,145	10,802	15,017	25,819
Net assets - beginning	93,521	339,596	433,117	82,719	324,579	407,298
Net assets - ending	\$113,137	\$352,125	\$465,262	\$ 93,521	\$339,596	\$433,117

The City's net assets increased by \$32.1 million during the fiscal year, with net assets of Governmental Activities increasing by \$19.6 million, and net assets of Business-Type Activities increasing by \$12.5 million. The general government incurred more expenditures in 2006 than 2005 related to investments in net assets.

Governmental Activities

More than 58.3% of the governmental funds revenues were derived from property taxes, auto registrations and franchise fees, 19% from operating grants, then followed by 15.1% from charges for services and finally, about 7.7% of the City's revenue in this fiscal year was derived from a combination of investment earnings, gain (loss) of sales of capital assets, and transfers. Total revenues, excluding transfers and other, increased by \$6.9 million. Property taxes, auto registrations and franchise fees increased by \$3.2 million or 4.0% over last year.

Business-Type Activities

Business-Type activities increased the City's net assets by \$12.5 million, which is a decrease of \$2.5 million from an increase of \$15 million for last year. See next page for more detail.

- ◆ Water Works net assets increased by \$3.2 million, up \$.1 million from the increase in net assets of \$3.1 million last year. Water usage, service charges and fire protection charges rates increased 9.5% beginning January 1, 2006.
- ◆ EPD net assets increased by \$2.8 million, up \$3.7 million from the decrease in net assets of \$.9 million due mainly to the donation of land for \$2.99 million in the previous fiscal year. The most significant change in EPD's fund net assets lies in nonoperating revenues and expenses with a \$2.3 million decrease from fiscal year 2004. The key factor for this change was the donation of fixed assets to the Public Works Department (PWD) and to the Parks & Recreation Department.
- ◆ Aviation net assets increased by \$6.2 million. Aviation fund capital contributions amounted to \$4.9 million, a decrease from \$13.9 million the previous year. Manchester-Boston Regional Airport experienced a slight decrease (-1.6%) in passenger enplanements in FY2006, as enplanements decreased by 34,886 from FY 2005.

Financial Analysis of the Fund Financial Statements

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$43.7 million, a decrease from \$67.6 million as reported on June 30, 2005. The decrease of \$23.8 in fund balances consists of the excess of expenditures over revenues totaling \$26.6 million in the Capital Projects fund. Approximately 40.3% of this total amount constitutes unreserved fund balance that is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed: \$18.3 million to cemetery, library and other trust funds; \$4.4 million to liquidate contracts and purchase orders of the prior period; \$2.3 million to self-insured workers' compensation claims reserve, \$3.0 million for land held for resale and \$.89 million for inventory.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$.77 million while the total fund balance reached \$25.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and education operating transfers. Unreserved fund balance represents 15.4% of total general fund expenditures of \$116.7 million, while total fund balance represents 21.7% of that same amount.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Manchester-Boston Regional Airport experienced a slight decrease (-1.6%) in passenger enplanements in FY2006, as enplanements decreased by 34,886 from FY 2005. This decrease resulted from the

ongoing nationwide airline struggles with bankruptcies, competitive strategies, and high fuel costs. At Manchester (a medium hub), several airlines reduced capacity by eliminating nearly 20 % of their available seats. The impact of this seat reduction was felt mainly in the second half of FY2006. Operating income decreased from \$2.5 million in FY2005 to \$1.8 million in FY2006, a decrease of 25.7%. This decrease was due primarily to increased operating expenses, specifically, purchased property services, (\$14.5 million in FY2006 versus \$13.9 million in FY2005, a 4.3% increase). This increase is attributable to the increased plant size of the facility, both in terms of the Terminal and airfield/runway expansion.

Net assets of the proprietary fund consisting of the Water Works were \$69.7 million, as compared to \$66.5 million in the prior year. The unrestricted net deficit of the Water Works was \$.09 million. The restricted net assets increased from \$10.52 million to \$11.0 million. The Water Works experienced operating revenues of \$15.4 million from user fees. There was a total net income for the Water Works of \$1.1 million before capital contributions of \$2.1 million. The change in net assets for the fiscal year ended June 30, 2006 was \$3.2 million, due mainly to an increase in capital contributions.

Total assets for Environmental Protection Division (EPD) increased from \$140.6 million ending balance at June 30, 2005 to \$140.7 million at June 30, 2006. EPD's cash decreased by \$6.0 million primarily due to paying cash, rather than incurring debt, for the construction and acquisition of capital resources. This contributed to a \$9.6 million increase in investments in capital assets. The fiscal year 2006 ending fund balance (fund net assets) is \$107.22 million. Investments in capital assets accounts for 87.8% of this total fund balance.

The Parks & Recreation Fund and the Aggregation Fund, both non-major funds, reported net operating losses for FY 2006 of \$1.2 million. The Aggregation Fund was dissolved effective June 30, 2006. A transfer from the General Fund in the amount of \$1.8 million closed out the fund. It is the intention of the BMA to reimburse the General Fund in the amount of \$1.5 million from various enterprise funds and the MSD.

General Fund Budgetary Highlights

The City ended Fiscal Year (FY) 2006 with an increase in the general fund balance sheet over FY 2005. The City's "rainy day" Revenue Stabilization fund remained at \$10.1 million. The City's unreserved and undesignated fund balance decreased from \$1.1 million to \$.7 million, less than the targeted one percent of the FY 2006 tax warrants according to City ordinance which would make it \$1.5 million. In order to fund additional amounts into the Tax Rate Stabilization Reserve, the City has to realize an excess amount past the \$1.5 million. The special revenue account which accounts for one-time revenues, (i.e., property sales, etc.) increased by \$3.6 to \$5.7 million from \$2.1 million. The City's reserves for workers compensation, health insurance, and general liability had an aggregate decrease of \$.7 million or 15.9% from \$4.4 to \$3.7 million.

During the year, actual revenues and other financing sources on a budgetary basis were \$115.6 million, \$1.4 million less than the estimated revenues. Actual tax revenues were under budget by \$73,572. Actual intergovernmental revenue was \$216,871 over budgetary estimates. Investment income was \$31,992 less than the \$2.2 million that had been budgeted. Additional shortfalls of \$1.1 resulted in a decrease of building permits included in licenses and permits. Nonenterprise charges for sales and services were \$46,955 less than budgeted. Other revenues were \$829,113 less than budgeted of which approximately \$400 thousand is due a decrease in chargebacks received from the Manchester School District. Transfers in were \$467,803 over budgeted estimates.

Actual expenditures on a budgetary basis and other financing uses totaled \$116.8 million, \$960,074 less than budgeted. The combined net difference of budgeted revenues and expenses on a budgetary basis resulted in a negative variance of \$477,666. The fiscal year 2006 budget included a planned appropriation of fund balance of \$750,000.

General Fund Revenues - The following schedule presents a summary of General Fund revenues (GAAP basis) for the years ended June 30, 2006 and 2005.

	2006	2005	Amount of	Percent of
Revenues	Amount	Amount	Increase	Increase
	(000's)	(000's)	(Decrease)	(Decrease)
Taxes	\$ 69,053	\$ 65,844	\$ 3,209	4.87 %
Federal and State Grants	9,510	9,112	398	4.37
Nonenterprise charges for sales and services	4,812	4,688	124	2.65
Licenses and Permits	21,610	21,964	(354)	(1.61)
Interest	2,218	1,398	820	58.66
Other	9,874	11,860	(1,986)	(16.75)
Total	\$ 117,077	\$ 114,866	\$ 2,211	1.92 %

General Fund Expenditures - The following schedule presents a summary of General Fund Expenditures (GAAP basis) for the years ended June 30, 2006 and 2005.

	2006	2005	Amount of	Percent of
Expenditures	Amount	Amount	Increase	Increase
	(000's)	(000's)	(Decrease)	(Decrease)
General government	\$ 23,061	\$ 21,652	\$ 1,409	0.0651 %
Public safety	44,980	41,273	3,707	0.0898
Health and sanitation	3,125	2,958	167	0.0565
Highway and streets	22,949	22,186	763	0.0344
Welfare	1,261	1,186	75	0.0632
Library	2,574	2,461	113	0.0459
Parks and recreation	3,293	3,435	(142)	(0.0413)
Debt service	15,466	17,554	(2,088)	(0.1189)
Total	\$ 116,709	\$ 112,705	\$ 4,004	0.0355 %

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounts to \$927.9 million, net of accumulated depreciation. This investment in capital assets includes land, building and system improvements, machinery and equipment, park facilities, roads, sewers and bridges. The total increase in the City's investment in capital assets for the current fiscal year was \$37.5 million or 4.2%.

	2006			2005			
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total	Change
Land	\$ 18,447	\$ 40,159	\$ 58,606	\$ 18,454	\$ 39,518	\$ 57,972	\$ 634
Buildings and improvements	153,974	439,095	593,069	127,700	439,726	567,426	25,643
Infrastructure	31,885	-	31,885	30,454	-	30,454	1,431
Machinery, equipment, distribution and collection systems	8,909	51,690	60,599	8,896	53,937	62,833	(2,234)
Construction in progress	118,490	65,238	183,728	118,198	53,437	171,635	12,093
Total	\$ 331,705	\$ 596,182	\$ 927,887	\$ 303,702	\$ 586,618	\$ 890,320	\$ 37,567

Major capital asset events during the current fiscal year included the following:

- ◆ Improvements and renovations to school facilities.
- ◆ Continued rehabilitation of playgrounds and athletic fields.
- ◆ Infrastructure improvements including roads, bridges, and sanitary and sewer projects.
- ◆ Replacement of emergency and rescue equipment and purchase of police vehicles.
- ◆ Acquisition of parcels for ongoing city development projects.
- ◆ Aviation capital improvements and buildings.
- ◆ Water Works plant improvements.
- ◆ EPD capital improvements and infrastructure.
- ◆ Recreation capital improvements.

Information on the City's capital assets can be found in Note 8 on pages 57-60 of this report.

City of Manchester, New Hampshire
Outstanding Debt
General Obligation and Revenue Bonds (000's) in thousands
June 30, 2006 and 2005

	2006			2005		
	Govern- mental Activities	Business- Type Activities	Total	Govern- mental Activities	Business- Type Activities	Total
General Obligation Bonds	\$148,188	\$ 35,397	\$183,585	\$162,273	\$ 43,579	\$205,852
Revenue Bonds, net of premiums and discounts	114,925	295,580	410,505	118,457	282,663	401,120
Totals	<u>\$263,113</u>	<u>\$330,977</u>	<u>\$594,090</u>	<u>\$280,730</u>	<u>\$326,242</u>	<u>\$606,972</u>

Long-term debt. At the end of the current fiscal year, the City had total debt service requirements including interest payments, on bonded debt outstanding, of \$929.2 million. General obligation debt is backed by the full faith and credit of the City government.

The City was assigned the following credit ratings; FitchRatings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., have assigned the ratings of "AA+," "Aa2," and "AA+," respectively.

The general debt limit of the City is 9.75% of base valuation. Base valuation (\$10,602,427,714) is determined by adding the amount of taxable property lost to the City as a result of the enactment of the State Business Profit Tax Law to the "equalize assessed valuation." Not more than 7% of the base valuation may be incurred for school purposes. Water and sewer projects ordered by the State Water Supply and Pollution Control Commission, self-supporting sewer debt, debt for urban redevelopment and housing purposes, and overlapping debt are excluded from the measure of indebtedness. Other water projects are subject to a separate, special debt limit of 10% of the City's base valuation. Borrowings authorized by legislative acts rather than the general municipal finance statutes are sometimes excluded from the city's debt limit. The Total Equalized Valuation figure includes Utility Valuation and Railroad Monies Reimbursements. Total bonded debt for the general government includes the MSD portion. As of June 30, 2006, the City recorded long-term debt of \$113.1 million related to Governmental Activities, \$131.6 million related to the MSD and \$334.4 million related to Business-Type Activities, well below its statutory debt limit. Information on the City's long-term debt can be found in Note 10 on pages 62-66 of this report.

Fiscal Year 2007 Budget

The fiscal year 2007 combined General Fund budget for the City and the MSD contains an appropriation increase of 1.61% over the fiscal 2006 budget. Non-property tax revenues are anticipated to be relatively flat as compared to fiscal year 2006. In the formulation of the fiscal 2007 budget, the Board of Mayor and Aldermen, after consultation with the Department of Finance and the City's assessing department, produced a budget to meet all contracted obligations without layoffs or reductions in City services. The Traffic department's parking segment of the General Fund was transformed into a new Parking Enterprise fund in the fiscal 2007 budget. The areas of concern in developing the fiscal year 2007 budget were a sluggish economy leading to flat collections of non-property tax revenues, increased costs for retirement fund contributions and health insurance and an obligation to maintain the highest possible level of public safety, health and education. The City believes that it has met all of those concerns in the final adopted fiscal year 2007 budget.

The following table sets forth the City's General Fund operating budgets for fiscal years 2005-2007. Enterprise funds, the County tax, veteran exemptions and the overlay reserve for abatements are excluded from this table.

BUDGET TRENDS

	2005		2006		2007	
	Amount	%	Amount	%	Amount	%
Education	\$ 137,499,619	54.9%	\$ 142,203,719	54.9%	\$ 145,500,000	55.3%
General Government	21,851,784	8.7%	23,099,336	8.9%	14,039,158	5.3%
Public Safety	40,305,905	16.1%	42,813,034	16.5%	45,635,644	17.3%
Highway and Streets	22,190,323	8.9%	22,796,144	8.8%	31,078,469	11.8%
Health and Welfare	4,500,243	1.8%	4,661,509	1.8%	4,879,380	1.9%
Culture and Recreation	6,045,190	2.4%	6,083,322	2.3%	6,434,936	2.4%
Economic Development	229,989	0.1%	261,449	0.1%	380,823	0.1%
Motorized Equipment	200,000	0.1%	1,500,000	0.6%	1,330,000	0.5%
Debt Service	17,558,150	7.0%	15,467,725	6.0%	13,783,550	5.2%
Total Budget	<u>250,381,203</u>	<u>100.0%</u>	<u>258,886,238</u>	<u>100%</u>	<u>263,061,960</u>	<u>100.0%</u>
Less MSD Budget	(137,499,619)		(142,203,719)		(145,500,000)	
General Fund Budget	<u>\$ 112,881,584</u>		<u>\$ 116,682,519</u>		<u>\$ 117,561,960</u>	

Requests for Information

The financial report is designed to provide a general overview of the City's finances for all those with an interest in government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Officer at One City Hall Plaza, Manchester, NH 03101.